



Building Report: Cordell Hull & Central Services Buildings

State of Tennessee



February 4, 2013

Prepared for:

Department of General Services

STREAM



Table of Contents

- A. Executive summary
- B. Existing buildings
 - 1. Maps, pictures
 - 2. Occupants by agencies
- A. Capital expenditures required
 - 1. 2013 pre-planning projects
 - 2. Remaining facility assessment projects
- A. Relocation scenarios
 - 1. Size of relocated facility
 - 2. New building costs
- A. Financial analysis of alternatives
 - 1. NPV of results
 - 2. Sensitivity analysis
 - 3. 20 year cash flow model

Executive Summary

The recommendation

It is recommended that the occupants of the Cordell Hull Building and the Central Services buildings be relocated to either a newly constructed and owned building or a leased premise. A newly constructed and owned building could be either on the current site or a new site to be purchased. The net present value of the savings over a twenty year period of occupying a new, owned building on a site to be determined is \$36.3 million and the same for occupying a leased premise is \$18.9 million. In the event the State chooses to demolish the existing buildings and to replace them on the same site, then a more expensive building with a limestone or other similar material façade is appropriate given its location across from the Capitol. The net present value savings over twenty years in this scenario is \$22.7 million. The decision to build and own versus lease an existing building depends primarily on the availability of capital to fund a new owned building. In the event the state prefers to build and own but is not in a position to fund the new building immediately, it is recommended that the state engage a developer to build and lease the new building to the state with the option to purchase the building at the state's discretion. In this case, the Net Present Value savings over 20 years is \$18.4 million if the building is not purchased.

The facility information/history/background

The Cordell Hull building has been used by the state for over fifty years. The building is very typical of state office buildings of its era, well-constructed and somewhat iconic of mid-fifties architecture. However, the building is now functionally obsolete. The building systems, especially the mechanical, electrical, exterior envelope, and foundation are difficult to maintain and expensive to replace. These issues contribute to operating expenses that are estimated to be \$8.60/sf by 2013. Further, the floor plate design reflects a very different office style than is currently utilized making the building inefficient in terms of density of occupancy. Therefore, this building is expensive to continue to occupy.

The Central Services building is also obsolete and has been plagued with many issues including water infiltration. It is anticipated that operating expenses in 2013 will be \$7.71/sf. Both the Cordell Hull Building and the Central Services Building will require substantial capital investment in order to effectively continue their use and occupancy.

The justification of the recommendation

Attached to this is a financial analysis of four scenarios: Status Quo, Move to a Lease, and Move to a New, Owned Building on a new site, and Move to a new, Owned building on the existing site. The analysis includes an estimate for each of the costs and proceeds (cash flow) associated with each scenario over a twenty year period. The key assumptions which drive the conclusion are:

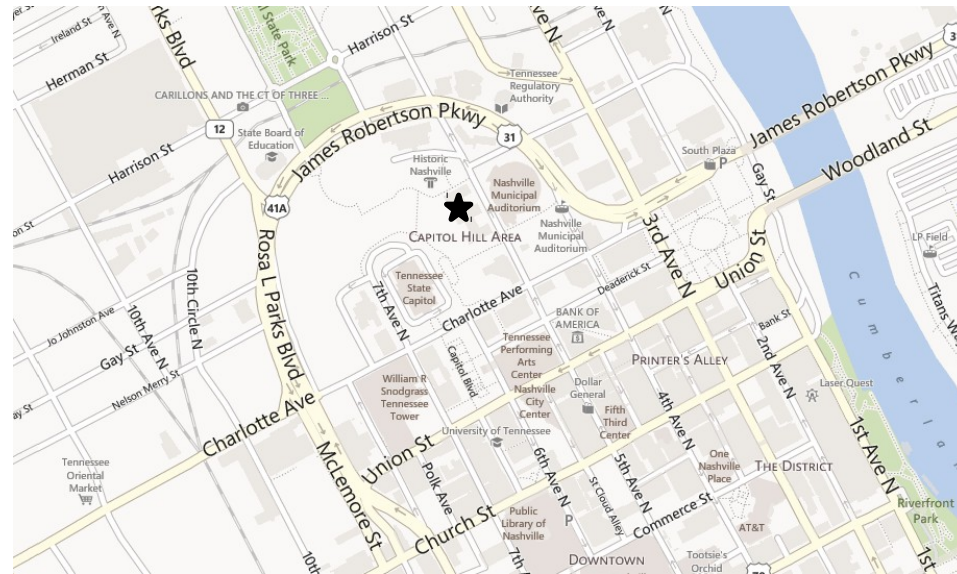
- 1) A replacement building or lease could be accomplished with 67,000 fewer square feet than remaining in these buildings
- 2) A replacement building will cost \$2.85/sf less to operate than the Cordell Hull.
- 3) Replacing these buildings will avoid the expenditure of over \$37.5 million of capital investment needed to continue their occupancy, including \$ 34.4 million of immediate need projects (see attached Capital Request Summaries)
- 4) A new, owned building will likely retain much of its value over this twenty year period.

Disposition of Existing Real Estate

It is not recommended that the State dispose of the land which contains the Cordell Hull and Central Services buildings. It is across the street from the Capitol building and should be retained. If it is determined that the current occupants of these buildings do not need to be across the street from the Capitol and could be in less expensive space elsewhere, then these buildings would demolished. Alternative uses for the site might include a larger consolidation of state employees than just to house the current occupants of Cordell Hull and Central Services.

Maps, pictures:

Cordell Hull and Central Services



Current Occupants by Agencies

Cordell Hull Building

Agency	Rented SF ₂
Health	159,675
Children's Services Admin.	71,640
Attorney General	46,206
Mental Health	35,654
General Services Bldg. Mgmt.	5,929
Legislative	1,904
FRF (Vacant)	1,903

Central Services Building

Agency	Rented SF ₂
Health	33,890
Attorney General	18,003
Gen. Services Gldg. Mgmt.	3,114

Capital Expenditures Required:

2013 pre-planning projects and Remaining Deferred Maintenance projects

Cordell Hull Building	
Electrical Upgrades	\$ 1,700,000.00
Recommend replacement of roof as deteriorated and in poor condition.	\$ 350,000.00
Recommend review by a engineering\architectural firm specializing in fire life safety for project improvement plans. Probable cost is for firm to review and make design change recommendations to stairwell.	\$ 170,000.00
Egress\exit stairway in North tower has two awkward step downs at door openings and an area that may not be included in stairwell pressurization plan. This is very difficult to change as changes to the stairway would affect riser tread size. However, improved signage; warning, lighting and door hardware may improve the situation. Probable cost for door hardware, lighting, signage to implement immediately.	\$ 20,000.00
Perform testing and certification of backflow devices.	\$ 1,000.00
Relocate FDC to exterior of Gen enclosure with signage \$ 10,000.	\$ 10,000.00
Repair stairwell pressurization and test after hours \$5,000.	\$ 50,000.00
Repair flow switch \$250	\$ 1,500.00
Engage an engineering\design firm to evaluate smoke evacuation system for correct function	\$ 300,000.00
Recommend Arc flash engineering study and service of electrical distribution system.	
Implement labeling and safety training program to meet arc flash requirements.	\$ 50,000.00
Probable cost to refurbish loading dock and exec parking lot	\$ 8,000.00
City of Nashville responsible for sidewalks on perimeter. North Egress path to sidewalk has a bad section at the lowest landing. Probable cost for sidewalk repairs	\$ 5,000.00
Total Deferred Maintenance	\$ 2,665,500.00
Included in 2013 Pre-Planning Budget:	
Cordell Hull Exterior Door Replacement	\$ 170,000.00
Cordell Hull Elevator System Modernization	\$ 3,080,000.00
Cordell Hull Waterproofing Building Foundation	\$ 2,850,000.00
Cordell Hull HVAC System Upgrades	\$10,000,000.00
Cordell Hull HVAC System Upgrades	\$ 3,650,000.00
Cordell Hull Fire Alarm System Replacement	\$ 1,850,000.00
Total Pre-Planning Costs	\$21,600,000.00
Total Costs	\$24,265,500.00

Capital Expenditures:

2013 pre-planning projects and Remaining Deferred Maintenance projects

Central Services	
Recommend repair of dewatering pump system	\$ 15,000.00
Servicable, but recommend cleaning	\$ 5,000.00
Conduct fault current study and electrical safety (arc flash labeling and safety training program).	\$ 405,000.00
Time and material estimate to skim coat landing on 5th Ave where the concrete is not level	\$ 5,000.00
Total Deferred Maintenance	\$ 430,000.00
Included in 2013 Pre-Planning Budget:	
Central Services Plumbing Upgrade	\$ 6,800,000.00
Central Services Cable Upgrade	\$ 350,000.00
Central Services HVAC Upgrade	\$ 550,000.00
Central Services Exterior Waterproofing & Repairs	\$ 4,900,000.00
Central Services Replace Grease Pits	\$ 180,000.00
Total Pre-Planning Costs	\$12,780,000.00
Total Costs	\$13,210,000.00

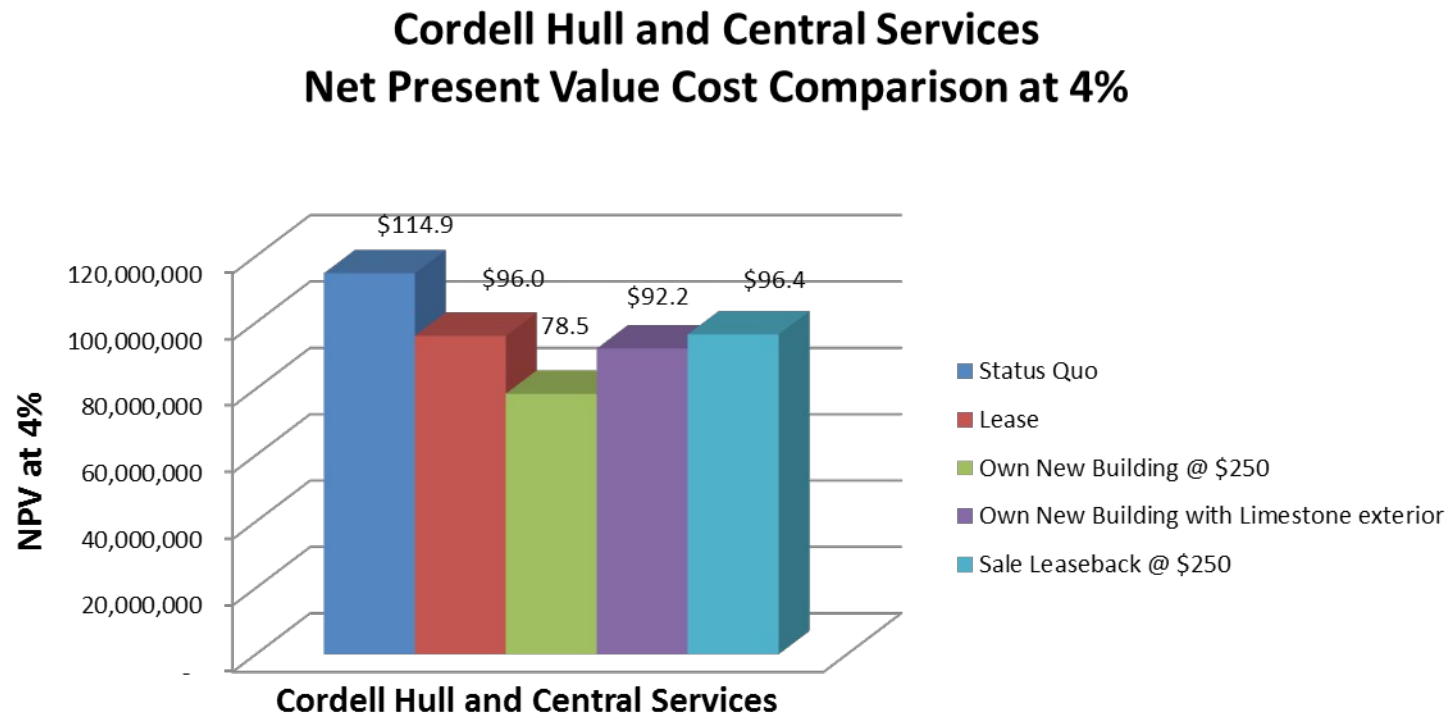
Relocation Scenarios:

Size of relocated facility/New building costs

Cordell Hull and Central Services					
		Post T3 Occupancy	Target Density	Rentable SF	Gross SF
	Cordell Hull	1,065	250	266,250	
	Central Services	66	250	16,500	
	New Total Area	1,131		282,750	311,025
Total Project Budget					
16-Oct-12					
		Qty	U/M	Unit Cost	Total
Development Costs					
	Land Acquisition	14	AC	\$ 500,000	\$ 7,000,000
	Shell Building Construction	311,025	SF	\$ 95	\$ 29,547,375
	Stework	311,025	SF	\$ 10	\$ 3,110,250
	Parking	-	Spaces	\$ 3,000	\$ -
	Developer Overhead/Indirect Costs	311,025	SF	\$ 20	\$ 6,220,500
	3rd Party Fees	311,025	SF	\$ 12	\$ 3,732,300
	Developer Fee	311,025	SF	\$ 8	\$ 2,488,200
	Subtotal				\$ 52,098,625
	Developer Contingency			5%	\$ 2,604,931
	Total Development Costs				\$ 54,703,556
Interior Costs					
	Soft Costs	311,025	SF	\$ 10.00	\$ 3,110,250
	Construction	311,025	SF	\$ 50.00	\$ 15,551,250
	3rd Party PM	311,025	SF	\$ 4.00	\$ 1,244,100
	FF&E	311,025	SF	\$ -	\$ -
	Subtotal				\$ 19,905,600
	Contingency			10%	\$ 1,990,560
	Total Interior Costs				\$ 21,896,160
Total Projected Cost					
\$ 76,599,716					

Financial Analysis of Alternatives:

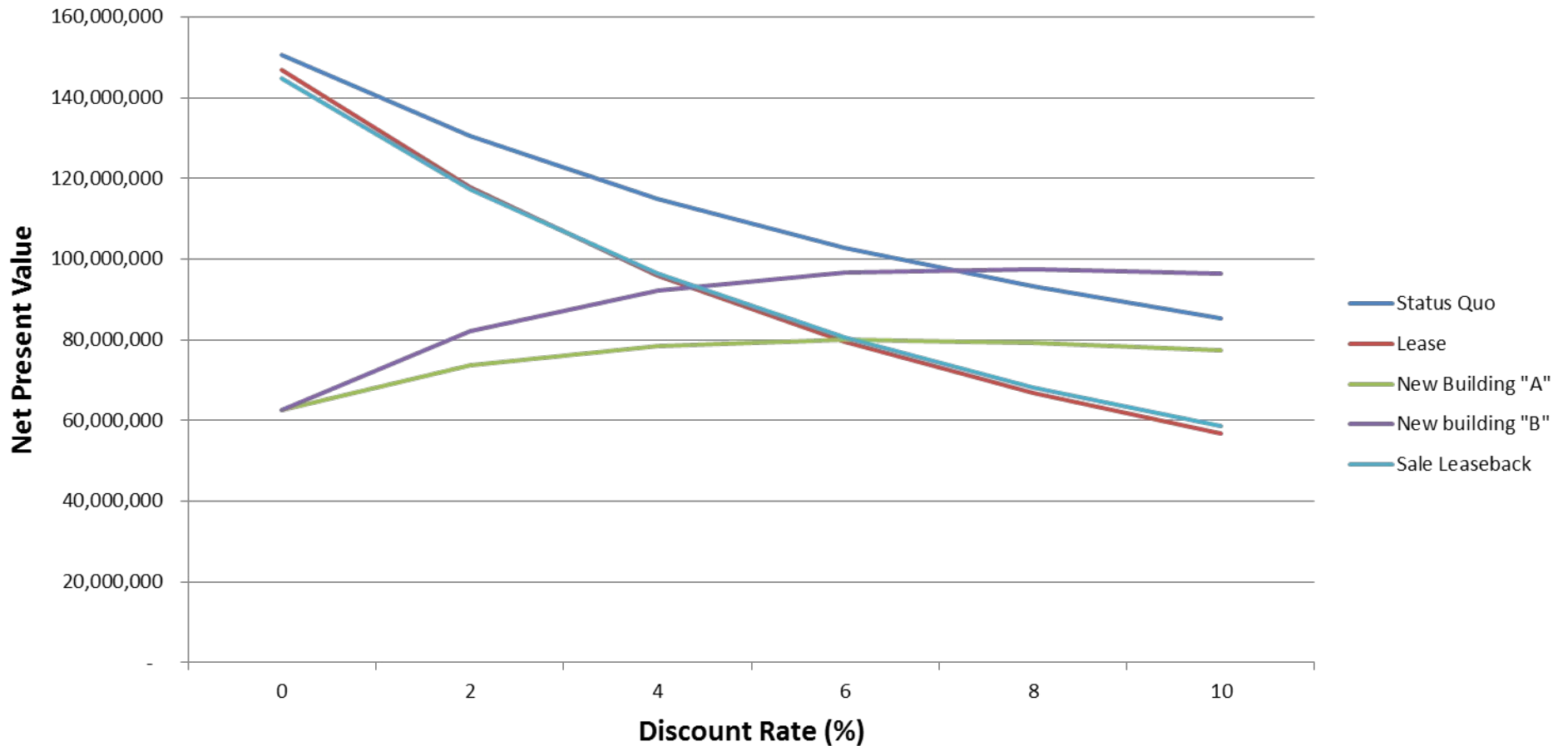
NPV of results/Sensitivity analysis/20 year cash flow model



Financial Analysis of Alternatives:

NPV of results/Sensitivity analysis/20 year cash flow model

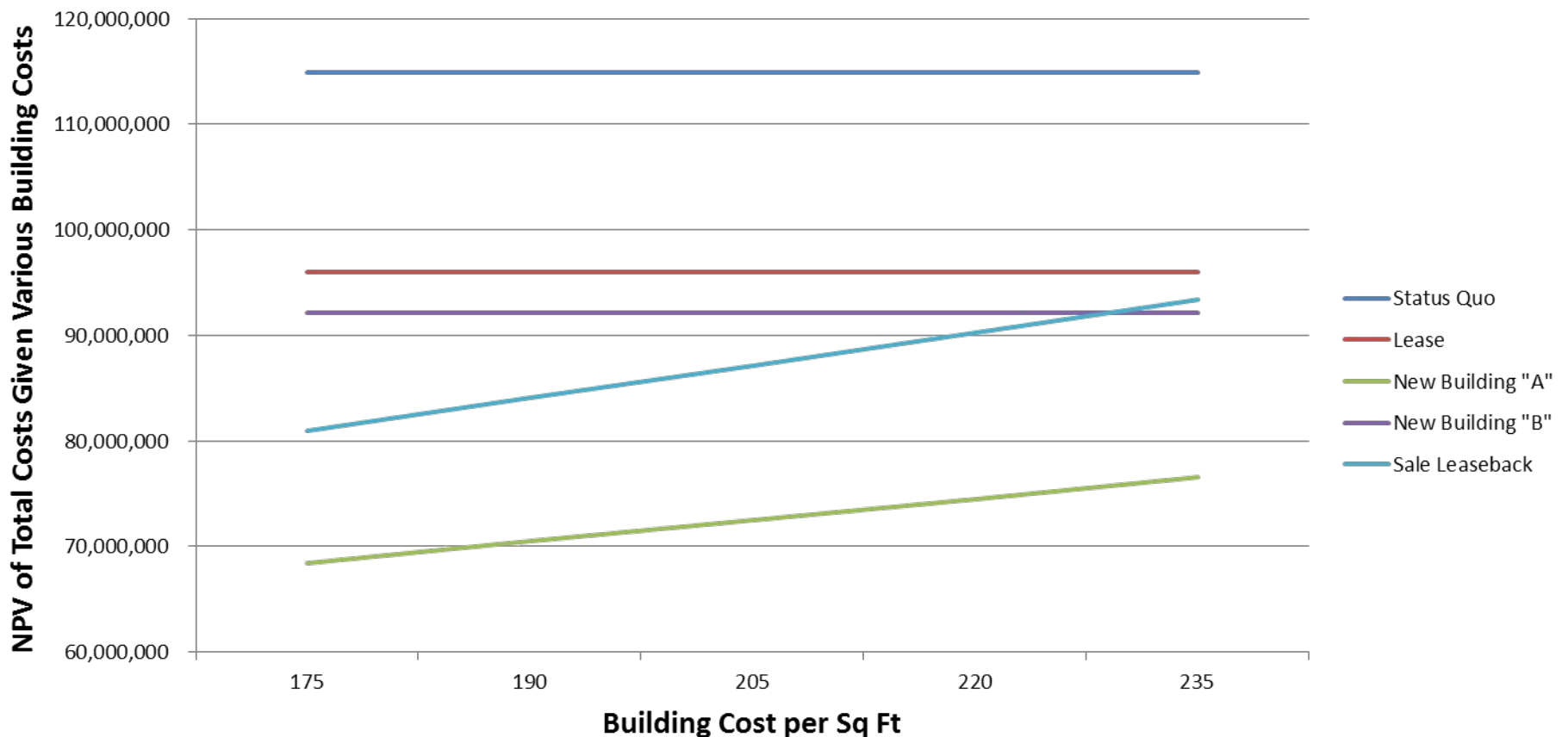
**NPV of Cordell Hull and Central Services Costs Given Discount Rates
Between 0% and 10% Over 20 Years**



Financial Analysis of Alternatives:

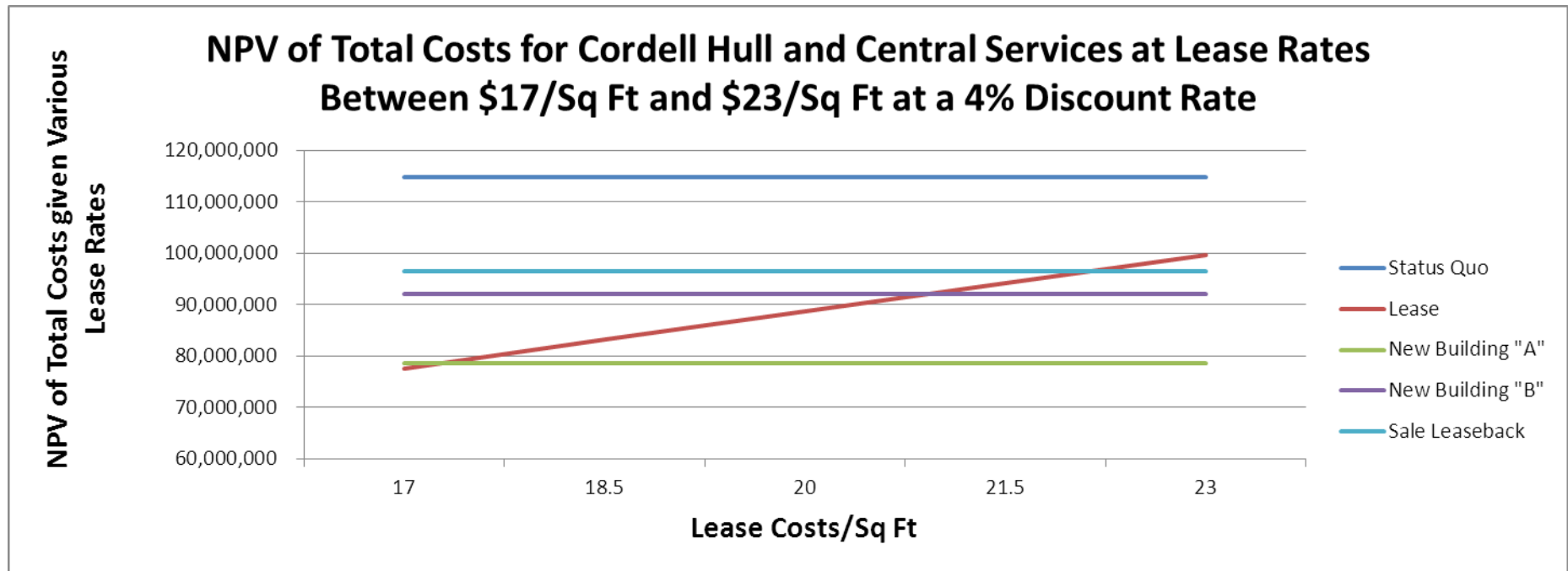
NPV of results/Sensitivity analysis/20 year cash flow model

NPV of Costs of a New Building for Cordell Hull and Central Services Over 20 Years with Building Costs Between \$175/Sq Ft and \$235/Sq Ft For Building "A" and Costs Between \$270/Sq Ft and \$330 Sq Ft for Building "B" at a 4% Discount Rate



Financial Analysis of Alternatives:

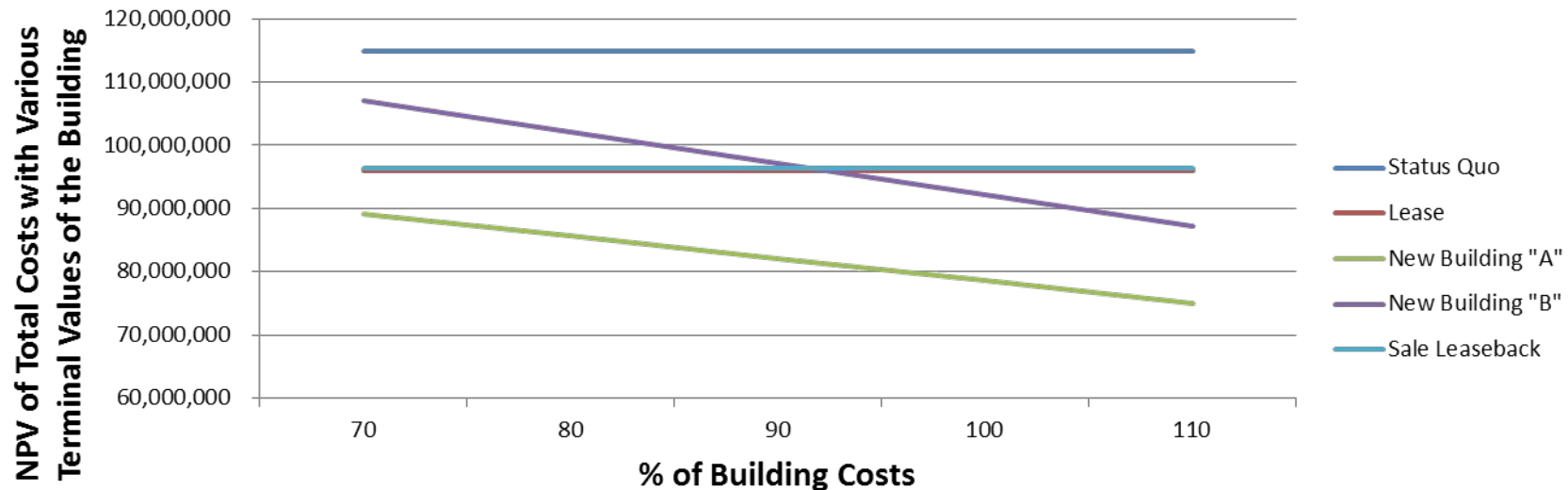
NPV of results/Sensitivity analysis/20 year cash flow model



Financial Analysis of Alternatives:

NPV of results/Sensitivity analysis/20 year cash flow model

NPV of Total Costs for Cordell Hull and Central Services at Terminal Values Between 70% and 110% of Building Costs at 4 % Discount Rate



Cash Flow Model

	Cordell Hull	Central Services	Leased Building	Owned Building "A"	Owned Building "B"
Sq Ft	322,911	55,008	282,750	311,025	311,025
Current Market Value/Sq Ft	\$ 10	\$ 10			
Future Capital Imp/Sq Ft	\$ 1.00	\$ 1.00	\$ -	\$ 0.35	\$ 0.35
Tenant Improvement Cost/Sq Ft	\$ 32.00	\$ 32.00			
Furniture Costs/Sq Ft	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00
Moving Costs/Sq Ft			\$ 1.50	\$ 1.50	\$ 1.50
Lease Costs/Sq Ft			\$ 22.00		
Operating Expenses/Sq Ft			\$ 7.00		
Cost of New Building/Sq Ft				\$ 250.00	\$ 350.00
Operating Expenses/Sq Ft - New Building				\$ 6.00	\$ 6.00
Rental Costs				5.50%	
Escalation of Rental Costs (%)				1.50%	
Demolition Costs/Sq Ft	\$ 12.00	\$ 15.00			

Assumptions	Escalation (%)
Discount Rate (%)	4.00%
Terminal Value (%)	100%

Additional Scenario - Cordell Hull and Central Services Status Quo

Building Value - Cordell Hull	3,229,110	3,059,157	2,889,204	2,719,251	2,549,297	2,379,344	2,209,391	2,039,438	1,869,485	1,699,532	1,529,578	1,359,625	1,189,672	1,019,719	849,766	679,813	509,859	339,906	169,953	(0)
Building Value - Central Services	550,080	521,128	492,177	463,225	434,274	405,322	376,371	347,419	318,467	289,516	260,564	231,613	202,661	173,709	144,758	115,806	86,855	57,903	28,952	(0)
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Additional Capital Investment Cost - Cordell	21,600,000	1,332,750	1,332,750																	
Additional Capital Investment Cost - CS	12,780,000	215,000	215,000																	
Tenant Improvements - Cordell Hull			10,333,152																	
Tenant Improvements - Central Services			1,760,256																	
Furniture Costs - Cordell			6,458,220																	
Furniture Costs - CS			1,100,160																	
Op Ex from 19011 - Cordell Hull	2,858,328	2,929,786	3,003,031	3,078,107	3,155,059	3,233,936	3,314,784	3,397,654	3,482,595	3,569,660	3,658,901	3,750,374	3,844,133	3,940,237	4,038,743	4,139,711	4,243,204	4,349,284	4,458,016	4,569,467
Op Ex from 19015 - Central Services	424,105	434,708	445,575	456,715	468,133	479,836	491,832	504,128	516,731	529,649	542,890	556,463	570,374	584,633	599,249	614,230	629,586	645,326	661,459	677,996
Capital Improvement Costs - Cordell Hull	322,911	330,984	339,258	347,740	356,433	365,344	374,478	383,840	393,436	403,272	413,353	423,687	434,279	445,136	456,265	467,671	479,363	491,347	503,631	516,222
Capital Improvement Costs - Central Services	55,008	56,383	57,793	59,238	60,719	62,237	63,792	65,387	67,022	68,697	70,415	72,175	73,980	75,829	77,725	79,668	81,660	83,701	85,794	87,939
Sale of Building - Cordell																				
Sale of Building - Central Services																				
Total Yearly Cost	38,040,352	5,299,611	25,045,195	3,941,799	4,040,344	4,141,352	4,244,886	4,351,008	4,459,783	4,571,278	4,685,560	4,802,699	4,922,766	5,045,836	5,171,982	5,301,281	5,433,813	5,569,658	5,708,900	5,851,622
20 Year NPV	114,867,174																			

Additional Scenario - Cordell Hull and Central Services - Move to Leases

Building Value - Cordell Hull	3,229,110	3,059,157	2,889,204	2,719,251	2,549,297	2,379,344	2,209,391	2,039,438	1,869,485	1,699,532	1,529,578	1,359,625	1,189,672	1,019,719	849,766	679,813	509,859	339,906	169,953	(0)
Building Value - Central Services	550,080	521,128	492,177	463,225	434,274	405,322	376,371	347,419	318,467	289,516	260,564	231,613	202,661	173,709	144,758	115,806	86,855	57,903	28,952	(0)
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Sale of Building - Cordell Hull	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of Building - Central Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Op Ex from 19011 - Cordell Hull	2,858,328	2,929,786	3,003,031																	
Op Ex from 19015 - Central Services	424,105	434,708	445,575																	
Furniture Costs			5,655,000																	
Moving Costs			424,125																	
Lease Costs - Combined Building				6,220,500	6,376,013	6,535,413	6,698,798	6,866,268	7,037,925	7,213,873	7,394,220	7,579,075	7,768,552	7,962,766	8,161,835	8,366,881	8,575,028	8,789,404	9,009,139	9,234,367
Additional Operating Exp - Combined Building					49,481	50,718	51,986	53,286	54,618	55,983	57,383	58,818	60,288	61,795	63,340	64,924	66,547	68,210	69,916	71,664
Total Yearly Cost	3,282,433	3,364,494	9,527,731	6,220,500	6,425,494	6,586,131	6,750,784	6,919,554	7,092,543	7,269,856	7,451,603	7,637,893	7,828,840	8,024,561	8,225,175	8,430,805	8,641,575	8,857,614	9,079,054	9,306,031
20 Year NPV	96,001,559																			

Cash Flow Model

page 2

Additional Scenario - Cordell Hull and Central Services - Move to New Building "A"

Building Value - Cordell Hull	3,229,110	3,059,157	2,889,204	2,719,251	2,549,297	2,379,344	2,209,391	2,039,438	1,869,485	1,699,532	1,529,578	1,359,625	1,189,672	1,019,719	849,766	679,813	509,859	339,906	169,953	(0)
Building Value - Central Services	550,080	521,128	492,177	463,225	434,274	405,322	376,371	347,419	318,467	289,516	260,564	231,613	202,661	173,709	144,758	115,806	86,855	57,903	28,952	(0)
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Sale of Building - Cordell Hull	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of Building - Central Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Op Ex from 19011 Cordell Hull	2,858,328	2,929,786	3,003,031																	
Op Ex from 19015 Central Services	424,105	434,708	445,575																	
Furniture Costs			6,220,500																	
Moving Costs			466,538																	
Cost of New Building			77,756,250																	
Operating Expenses - New Building				1,866,150	1,912,804	1,960,624	2,009,639	2,059,880	2,111,377	2,164,162	2,218,266	2,273,723	2,330,566	2,388,830	2,448,551	2,509,764	2,572,508	2,636,821	2,702,742	2,770,310
Future Capital Improvement Costs				108,859	111,580	114,370	117,229	120,160	123,164	126,243	129,399	132,634	135,950	139,348	142,832	146,403	150,063	153,815	157,660	161,601
Demolition Costs				4,700,052																
Sale of Building																				(77,756,250)
Total Yearly Cost	3,282,433	3,364,494	87,891,894	6,675,061	2,024,384	2,074,994	2,126,868	2,180,040	2,234,541	2,290,405	2,347,665	2,406,356	2,466,515	2,528,178	2,591,383	2,656,167	2,722,571	2,790,636	2,860,402	(74,824,338)
20 Year NPV	78,548,926																			

Additional Scenario - Cordell Hull and Central Services - Move to New Building "B" - Demolish Existing Buildings

Building Value - Cordell Hull	3,229,110	3,059,157	2,889,204	2,719,251	2,549,297	2,379,344	2,209,391	2,039,438	1,869,485	1,699,532	1,529,578	1,359,625	1,189,672	1,019,719	849,766	679,813	509,859	339,906	169,953	(0)
Building Value - Central Services	550,080	521,128	492,177	463,225	434,274	405,322	376,371	347,419	318,467	289,516	260,564	231,613	202,661	173,709	144,758	115,806	86,855	57,903	28,952	(0)
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Op Ex from 19011 Cordell Hull	2,858,328	2,929,786	3,003,031																	
Op Ex from 19015 Central Services	424,105	434,708	445,575																	
Furniture Costs			6,220,500																	
Moving Costs			466,538																	
Cost of New Building			108,858,750																	
Operating Expenses - New Building				1,866,150	1,912,804	1,960,624	2,009,639	2,059,880	2,111,377	2,164,162	2,218,266	2,273,723	2,330,566	2,388,830	2,448,551	2,509,764	2,572,508	2,636,821	2,702,742	2,770,310
Future Capital Improvement Costs				108,859	111,580	114,370	117,229	120,160	123,164	126,243	129,399	132,634	135,950	139,348	142,832	146,403	150,063	153,815	157,660	161,601
Demolition Costs				4,700,052																
Sale of Building																				(108,858,750)
Total Yearly Cost	3,282,433	3,364,494	123,694,446	1,975,009	2,024,384	2,074,994	2,126,868	2,180,040	2,234,541	2,290,405	2,347,665	2,406,356	2,466,515	2,528,178	2,591,383	2,656,167	2,722,571	2,790,636	2,860,402	(105,926,838)
20 Year NPV	92,164,866																			

Additional Scenario - Cordell Hull and Central Services - Move to New Building "A" - Sale Leaseback

Building Value - Cordell Hull	3,229,110	3,059,157	2,889,204	2,719,251	2,549,297	2,379,344	2,209,391	2,039,438	1,869,485	1,699,532	1,529,578	1,359,625	1,189,672	1,019,719	849,766	679,813	509,859	339,906	169,953	(0)
Building Value - Central Services	-	(28,952)	(57,903)	(86,855)	(115,806)	(144,758)	(173,709)	(202,661)	(231,613)	(260,564)	(289,516)	(318,467)	(347,419)	(376,371)	(405,322)	(434,274)	(463,225)	(492,177)	(521,128)	(550,080)
Cost of New Building				77,756,250																
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Sale of Building - Cordell Hull																				
Sale of Building - Central Services																				
Op Ex from 19011 Cordell Hull	2,858,328	2,929,786	3,003,031																	
Op Ex from 19015 Central Services	424,105	434,708	445,575																	
Furniture Costs			6,220,500																	
Moving Costs			466,538																	
Rental Costs				4,276,594	4,340,743	4,405,854	4,471,942	4,539,021	4,607,106	4,676,213	4,746,356	4,817,551	4,889,814	4,963,162	5,037,609	5,113,173	5,189,871	5,267,719	5,346,735	5,426,936
Operating Expenses - New Building				1,866,150	1,912,804	1,960,624	2,009,639	2,059,880	2,111,377	2,164,162	2,218,266	2,273,723	2,330,566	2,388,830	2,448,551	2,509,764	2,572,508	2,636,821	2,702,742	2,770,310
Future Capital Improvement Costs				108,859	111,580	114,370	117,229	120,160	123,164	126,243	129,399	132,634	135,950	139,348	142,832	146,403	150,063	153,815	157,660	161,601
Demolition Costs				4,700,052																
Sale of Building																				
Total Yearly Cost	3,282,433	3,364,494	10,135,644	10,951,655	6,365,127	6,480,847	6,598,810	6,719,061	6,841,647	6,966,617	7,094,021	7,223,908	7,356,330	7,491,340	7,628,992	7,769,340	7,912,442	8,058,355	8,207,136	8,358,847
20 Year NPV	96,428,518																			